

EXECUTIVE SECRETARIAT
Routing Slip

*Memo
Chano*

TO:		ACTION	INFO	DATE	INITIAL
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SUSPENSE		1 Nov Date			

Remarks:


D/ Executive Secretary
10/25/82
Date

82-12666

25 October 1982

MEMORANDUM FOR: Acting Deputy Director for Intelligence
FROM: Director of Central Intelligence
SUBJECT: German-Soviet Coal Plant Deal

I have seen a more recent report on this coal deal. Give me an update on this project, its implications and an evaluation of the German technology involved against Soviet technology and available US technology. This would be of value, particularly if it draws on judgments available in the Commerce and Energy Departments.


William J. Casey

Attachment:
NEW YORK TIMES article,
"German Coal Plant Deal
Expected with Soviet"

CONFIDENTIAL

25X1

THE NEW YORK TIMES
18 September 1982

German Coal Plant Deal Expected With Soviet

By JOHN TAGLIABUE

Special to The New York Times

BONN, Sept. 18 — Top West German and Soviet officials are expected to outline a far-reaching plan at meetings in Moscow next week for Bonn to deliver sophisticated coal processing plants to the Soviet Union in return for energy supplies, a West German Government official said today.

The disclosure came as negotiations were drawing to a close on a multibillion-dollar gas pipeline project between the Soviet Union and a Western European industrial and banking group led by West German companies and credit institutions.

The new project is expected to cause serious concern in the Reagan Administration, which is seeking a moderation of technology exports to Eastern Europe and has strongly cautioned against excessive Western European energy dependency on the Soviet Union.

U.S. Cooperation Offered

The Reagan Administration has offered Bonn extensive energy cooperation in an effort to provide an alternative to Soviet energy, but the news of the proposed new project indicates Bonn intends to pursue further energy cooperation projects with the Soviet Union.

The West German Minister of Economics, Count Otto Lambsdorff, and the Soviet Deputy Prime Minister, Leonid A. Kostandov, are expected to outline the plan at a five-day meeting in Moscow on energy cooperation projects beginning next Thursday. The meeting will include the formation of a joint Soviet-German Energy Commission.

According to the official, who will accompany Count Lambsdorff, the proposal involved construction of a complex of facilities near extensive coal fields in the vicinity of Kansk and Achinsk, in south-central Siberia, that would include plants to break coal down into simple gases. The gases would be used as feedstock for a hydrogenation plant to produce liquid energy sources, such as methanol. Such energy products could be shipped more easily than bulk coal within the Soviet Union, or abroad as a fuel export, the official said.

The official declined to estimate the value of the project. One purpose of next week's talks, he said, would be to outline a feasible scale for the project.

The official said the project would likely entail a partial barter deal,

meaning that Moscow would pay at least part of the construction costs with deliveries of synthetic gas or other energy or chemical products to West Germany.

Several large West German companies have the technology to undertake the project, including Krupp-Koppers, the subsidiary of Friedrich Krupp, the steelmaking concern, or Lurgi, a subsidiary of Metallgesellschaft, a diversified engineering and metals company.

Count Lambsdorff will be accompanied by experts on Eastern trade, such as Otto Wolff von Amerongen, president of the German Chamber of Industry and Trade, and Karlheinz Bund, the chairman of Ruhrkohle, Germany's largest coal company, which has worldwide experience in coal gasification and liquefaction projects.

The delegation will visit several energy projects in central Siberia over the weekend, the official said.

\$2 Billion a Year to Soviet

Starting in the mid-1980's, he said, the Soviet Union will earn \$2 billion to \$3 billion annually on deliveries of natural gas to Western Europe through the envisioned pipeline, which is to carry 40 billion cubic meters of gas a year to several Western European countries. The projected \$10 billion pipeline, the most expensive ever undertaken in East-West trade, would span 3,500 miles and would supply natural gas to seven European countries, increasing the Soviet share of their natural gas supplies to roughly 20 percent from the current 15 percent.

Both the Carter and Reagan Administrations have voiced serious displeasure to the West German Government because of its pursuit of extensive energy cooperation with Moscow. At the Ottawa summit meeting in July, President Reagan asked Chancellor Helmut Schmidt to reconsider the pipeline deal, and offered United States energy cooperation.

West Germany imported 7 percent of its primary energy sources from Russia last year, including 17 percent of its natural gas supplies. When the pipeline is completed, the Soviet share of Germany's natural gas supplies is expected to increase to roughly 30 percent, an amount Bonn calls safe.

Nothing Comparable Seen

A State Department delegation from Washington is expected in Bonn later this year to offer proposals for energy aid.

But in an interview with a West German economics magazine, published today, Count Lambsdorff said he saw "nothing that could be offered us that corresponds to the scale of the natural gas project."

"Certainly we are interested in such talks with the Americans about coal deliveries, about the further development of nuclear power, but we need natural gas, and America cannot offer that," he said.

The official said Count Lambsdorff would likely meet with the Soviet Prime Minister, Nikolai A. Tikhonov, and would touch on Poland, during the five days of talks, to admonish the Soviet leader that intervention in Poland would jeopardize economic cooperation.

But asked whether a Soviet intervention would lead to an economic boycott, Count Lambsdorff replied, "I don't speak of a boycott." He added that he was "of the firm conviction it would lead to losses, to limitations, to difficulties." He said, "That would be unavoidable in such a case."

Privately, West German Government officials have recently conceded that an invasion of Poland would likely seriously delay, but probably not cause the cancellation of, major economic projects.